LEGISLATIVE AUDIT COMMISSION

Review of
Illinois Racing Board
Final Audit
Year Ended June 30, 2003

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REVIEW: 4211
ILLINOIS RACING BOARD
YEAR ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 8

IMPLEMENTED - 5
ACCEPTED - 3
REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 10

This review summarizes the final audit of the Illinois Racing Board for the year ended June 30, 2003, filed with the Legislative Audit Commission March 2, 2004. The auditors conducted a compliance audit in accordance with *Government Auditing Standards* and State law. No opinion was expressed on the Board's financial statements because the Board does not, nor is it required to, prepare financial statements.

The Illinois Racing Board was a State agency, established for the purpose of regulating horse racing in Illinois. However, Executive Order #9 (2003) transferred all powers, duties, rights and responsibilities vested in the Racing Board to the Department of Revenue. The agency is administered by an eleven-member board, appointed by the Governor. Most other employees, including veterinarians, licensing personnel, State seasonal employees, other management and staff support are provided by the Department of Revenue. Currently the Board is regulating live racing at five tracks, two State fairs, one county fair and 25 off-track betting facilities within the State.

Some of the Board's responsibilities include allocation of racing dates, licensing of entities and individuals involved in horse racing, investigation of alleged violations, disciplinary actions against licensees, testing of horses for illegal drugs and prohibited substances, imposition of fines, and steward supervision of racing programs. The Board oversees the collection and allocation of various tax revenues associated with horse racing.

Mr. Marc Laino served as Acting/Interim Executive Director from October 13, 2001 through August 31, 2002. Mr. Walter Dudycz served as the Executive Director of the Illinois Racing Board from September 2002 through May 2003. Then Mr. Marc Laino was appointed Executive Director in June 2003, and he is the current Executive Director. Mr. Laino has been employed by the Racing Board since 1987. Mr. Brian Hamer is the Director of the Department of Revenue, a position he has held since February 2003.

The average number of employees at the Racing Board was:

	FY03		FY02	
	Full-Time	Per Diem	Full-Time	Per Diem
General Office	23	0	23	0
Laboratory	16	0	15	0
Regulation of Racing	0	50	0	57
TOTAL	**39**	**50**	**38**	**57**

Expenditures From Appropriations

The General Assembly appropriated $28,721,000 ($20,000,000 from the Horse Racing Equity Fund and $8,721,000 from the Horse Racing Fund) in FY03. The Horse Racing Equity Fund was established as a result of Public Act 91-40, effective in 1999. The legislation allocates 15% of the adjusted gross receipts generated from the 10th riverboat license to the horse racing industry. The 15% is further distributed to horsemen purses (7.5%) and race tracks (7.5%). The 10th riverboat license is currently not operational as a result of multiple court challenges that are still pending, so the General Assembly has appropriated $20 million to the fund.

Appendix A summarizes these appropriations and expenditures by object and division for the period under review. Total expenditures for the Board decreased from $7,653,862 in FY02, to $7,563,518 in FY03, a decrease of $90,344, or 1.2%. The decrease is due to a reduction in personal services.

Cash Receipts

Appendix B summarizes the cash receipts of the Board for the last three fiscal years. Total cash receipts increased from $1,848,759 in FY02, to $2,138,159 in FY03. Charity Fund receipts increased by $370,804 due to receipts for FY02 received in FY03.

Property and Equipment

Appendix C contains a summary of property and equipment transactions of the Board during the period under review. The balance at the beginning of the audit period totaled $2,249,218, and at the end of the audit period totaled $2,197,595.

Illinois Handle Totals

Appendix D provides a summary of the total handle wagered in Illinois from thoroughbred and harness racing on a calendar year basis. The total handle wagered from both thoroughbred and harness racing increased from $1,105,692,484 during calendar year 2001 to $1,131,874,324 in calendar year 2002. While the total handle wagered for thoroughbred racing has increased since 1995, FY03 was the first year that harness racing has showed any increase in more than a decade.

Service Efforts and Accomplishments

The Racing Board conducts post-race drug testing at all sanctioned race meets. The laboratory performed at 100% accuracy in blind sample tests conducted by the Association of Racing Commissioner's International Quality Program in calendar 2002. In 2002, there were 19,020 blood and urine tests administered revealing 23 prohibited drug positive horses.

Accountants' Findings and Recommendations

Condensed below are the eight findings and recommendations included in the audit report. Five of these are repeated from a prior audit. The following recommendations are classified on the basis of information provided by Brian Hamer, Director, Department of Revenue in a memo dated October 20, 2004.

Accepted or Implemented

1. Ensure the internal auditor completes audits of major systems of internal accounting and administrative controls once every two years. (Repeated-2001)

<u>Findings</u>: The Board did not perform audits of major systems of internal accounting and administrative controls at least once every two years as required by law. The internal audit department failed to test the following areas in the last two years: fixed assets/property control, travel, automotive expenditures, contractual services expenditures, printing expenditures, commodity expenditures, and revenue and receivables.

<u>Updated Response</u>: Pursuant to Executive Order 2003-10 all State agencies' internal audit functions were consolidated into the Department of Central Management Services (CMS). With the transfer, all Illinois Racing Board internal auditing is performed under the direction and supervision of the Illinois Office of Internal Audits.

Accepted or Implemented - continued

2. Allocate sufficient staff to ensure equipment purchases are timely and accurately added to the equipment records. Ensure proper segregation of

duties for equipment purchases and timely notify Property Control Officer of equipment purchases. (Repeated-2002)

<u>Findings</u>: The Board did not have adequate control over equipment recordkeeping, reporting, and proper approval of equipment purchases. There is also a lack of segregation of duties over equipment purchases.

The property control officer was not always aware of new equipment purchases. The fiscal officer was responsible for assigning property tag numbers to equipment. Since property was not timely entered on the property records, the property control officer had to issue temporary tag numbers. To rectify this situation, the property control officer was issued a bulk of property tag numbers. The property control officer was able to tag the equipment when received; however, the property control records were not updated timely for cost, date paid, etc.

At the central office, the fiscal officer orders, receives, records and approves the expenditure. The EDP manager also orders and directly receives the equipment. At the laboratory, the lab assistant also orders, receives, and prepares the voucher for payment after approval by the fiscal officer. Adequate segregation of duties requires separate staff to purchase, receive and record expenditures.

<u>Updated Response</u>: Accepted. In accordance with Executive Order 2003-9, effective June 1, 2003, the Illinois Racing Board was consolidated into the Illinois Department of Revenue (IDOR). In addition, all property (real and personal) formerly under the control of the Board has been transferred to IDOR. The Board has fully implemented all property inventory procedures and controls, and segregation of duties utilized by IDOR. We are confident that this will no longer be a compliance issue in the future.

3. Ensure contracts are executed prior to the commencement of services. Further, copies of contracts and obligation documents should be prepared and submitted to the State Comptroller in a timely manner. (Repeated-2002)

<u>Findings</u>: The Board did not execute contracts prior to the commencement of services. In addition, the Board did not file contract obligation documents or affidavits timely. Six of 13 contracts tested were not signed before the services were provided. In seven of 13 instances, the Board did not file contract obligation documents with the State Comptroller's office within 15 days. In one of 13 contracts tested a "Late Filing Affidavit" should have been filed but was not.

<u>Updated Response</u>: Implemented. Two months prior to the end of a fiscal year or the term of a contract, the Department of Revenue's (IDOR) Contract Coordinator provides a list to each DOR Program Administrator or sister agency director (including Racing Board) showing contracts his or her program area has in the current fiscal year. The Program Administrator provides the Contract Coordinator with a list showing which contracts his or her area needs for the next fiscal year. The Contract Coordinator of the designated area will prepare the contracts and routing slips, and the Contract Coordinator will log them into the contract monitoring system and route them for signature. Once all signatures are obtained, the Voucher Processing Division files the contract with the Comptroller. The Statewide Accounting Management System (SAMS) procedure gives agencies 15 days to file a contract, but the Comptroller has the right to add another 15 days to the filing time frame. If the contract has not been signed by the Director prior to the 30 days, DOR's Financial Control Bureau prepares a late filing affidavit and submits it with the contract to the Comptroller's Office. Additionally, Administrative Services will file all professional and artistic contracts whose value equals or exceeds $5,000 with the State Comptroller.

If a contract needs to be amended, DOR's Contract Coordinator prepares a contract amendment, routes it for approval by the originating Area, Program Administrator, Vendor, Legal, State Purchasing Officer, Budget and the Director for signature. Once this process is complete, IDOR submits it to the Comptroller to increase the contract amount. This procedure impacts contracts entered into by the Board and allows enough lead-time to prevent the situation in this finding from reoccurring.

4. Ensure that accurate commuting use is reported as a taxable fringe benefit. In addition, the successor agency should ensure that all new employees assigned a State vehicle are made aware that personal commuting use is a taxable fringe benefit to them.

Findings: The Board does not have adequate controls in place to ensure that the "personal use of a State vehicle" is treated as a taxable fringe benefit.

- Two new employees assigned State vehicles were not notified by Board management that commuting in a State car is a taxable fringe benefit. Upon notification, one of the employees reported personal commuting use. The other employee had still not picked up any commuting use.
- One employee turned over their assigned State vehicle in November 2, 2002, but still reported personal commuting use of $96 from November 2002 through June 30, 2003.
- Employees who reported personal use of State assigned vehicles have reported the same commuting days as in the prior year. They did not report the actual commuting days.

Accepted or Implemented - continued

Total personal use reported for the 12-month period ended June 30, 2003 for the eight employees assigned State vehicles was $2,259. Management instructed employees to pick up an average commuting use rather than actual commuting use.

Updated Response: Accepted. In accordance with Executive Order 2003-9, effective June 1, 2003, the Illinois Racing Board was consolidated into the Illinois Department of Revenue. The Department of Revenue is developing interoffice forms and specific procedures to ensure the proper reporting of State vehicles commuting mileage.

5. Ensure that evaluations are prepared in a timely manner. (Repeated - 2000)

Findings: The Board did not perform required employee evaluations timely. Specifically, 12 of 19 employee evaluations tested were either late, not on file, or not performed.

Updated Response: Implemented. IDOR is applying its notification and reminder system to employee evaluations for the Racing Board program. The IDOR system includes the following:

- The personnel office sends a letter to the supervisor requesting completion of the evaluation (60-90 days prior to official due date, upon receipt of relevant forms from CMS). The letter notifies the supervisor that he or she must submit the evaluation to the Personnel Office no later than seven days prior to the official due date.
- If the supervisor fails to submit the evaluation seven days prior to the official evaluation due date, the personnel office sends an "overdue evaluation" notice to the supervisor. The notice requires the supervisor to submit the evaluation no later than the official due date, along with a written explanation of the circumstances that prevented compliance with the seven-day advanced filing requirement.
- The personnel officer regularly compiles the overdue evaluation statements and submits them to the Director of Revenue for review.

The IDOR system has proven effective at significantly reducing the incidence of untimely evaluations.

6. Ensure that all payroll vouchers are properly reviewed and approved. In addition, recover the overpayments inappropriately made.

Findings: The Board did not have adequate control over payroll expenditures.

- The Board did not ensure that there was proper segregation of duties in the preparation and the approval of payroll vouchers. One employee input payroll adjustments and also approved payroll vouchers for payment. According to the auditors, this employee approved three out of 12 of the payroll vouchers. Board management stated that the fiscal officer should approve the payroll vouchers. However, the fiscal officer refused to sign the payroll vouchers without adequate supporting documentation of the payroll adjustments. Consequently, this employee approved the payroll vouchers to ensure employees received their paychecks timely.
- The same employee who approved three of the above payroll vouchers was overpaid $2,322.00. In May 2003, the employee was paid for four sick days for which no accrued sick time was available. This employee took a leave of absence

and filed a worker's comp claim form; however, the employee was paid $1,494.64 for eleven days during that same period.

<u>Updated Response</u>: Implemented. Pursuant to Executive Order 2003-9, the Illinois Department of Revenue merged the payroll functions of the Illinois Racing Board with Revenue's. The Illinois Racing Board is utilizing the same payroll procedures and mechanisms that are in place at the Department of Revenue. These procedures and mechanisms include, but are not limited to the following: clearly defined and segregated responsibilities. In addition, the overpayments that were inappropriately made have bee resolved.

7. Require that each of the totalisator system vendors, as a requirement for licensure, engage independent auditors to perform an annual independent SAS 70 review on the controls placed in operations and the tests of operating effectiveness. (Repeated-2002)

<u>Findings</u>: The Board did not obtain an annual third party audit of the computerized totalisator systems used at racetracks under the Board's jurisdictions. Without a third party audit, the Board does not have compete assurance that the controls necessary to prevent errors or irregularities from occurring are established and are operating effectively at all times.

Each of the racetracks under the Board's jurisdiction uses one of two computerized totalisator systems. These systems are the means for the racetracks to accept bets, cash winning tickets, and the primary source of information that flows into the Board's Pari-mutuel Information Tracking System which monitors tax revenues.

The totalisator systems calculated total calendar year wagers of $1.13 billion and $1.1 billion for 2002 and 2001, respectively. Of the total wagers, combined State and local government tax revenues received were approximately $26 million for calendar 2002.

The totalisator systems vendors have the responsibility to ensure that all processing is complete and accurate. As part of the 2003 contract process, the Board required, but did not receive, a coy of any reviews, audits, or assurances of the internal controls and processing integrity of the totalisator system conducted by the companies' internal

Accepted or Implemented - concluded

auditors, external auditors, or security staff. One company responded that they perform constant self-diagnostic functions and do not have an internal audit department and do not contract for external audits. The other company submitted a manual of controls done in 1997 for its Colorado operations. That company also indicated they do not have an internal audit department nor does it contract for external audits.

The Board approve the license for both totalisator companies on the condition that they agree to an independent audit and comply with the recommendations set forth in a report entitled "Improving Security in the US Pari-Mutuel Wagering System: Status Report and Recommendations." However, the Board never received an audit report from either company.

Response: Initially the Board disagreed with the finding, and the following comments were included in the original audit report.

Auditor Comments: The Board did receive reports from independent auditors for both totalisator companies; however, they were received solely as a result of the 2002 Breeder's Cup incident. Both of the reports that were received were classified as confidential and are not available for public inspection. Furthermore, both reports were limited scope reviews that did not cover all aspects that an independent SAS 70 report entails.

Again, we continue to believe that the Board should require that each of the totalisator system vendors engage independent auditors to perform an annual independent SAS 70 review on their controls placed in operation and the tests of their operating effectiveness.

Update Response: Implemented. At it December 8, 2003 monthly meeting, the Board required that as a condition of their license, totalisator licensee applicants' must submit an SAS70 report by July 1, 2004. The SAS 70 report will also be required for all subsequent licensing periods (calendar years).

8. Have employees sign out at the end of their workday. The supervisors should approve the time worked only after the work day is complete.

Findings: Through observations and review of timesheets, the auditors noted that per diem racetrack employees were signing out for their time of departure at the beginning of the workday when they signed in. Four of seven employees signed out before the workday ended. One employee had not signed out, but her normal time worked was approved by the supervisor. The timesheets were approved by the Department Supervisor when the workday began.

Updated Response: Implemented. The Regulation of Racing (field staff) is required to sign in upon arrival and sign out when departing. Both signatures are now required to be witnessed by the employee's supervisor. Additionally, management is researching and considering utilizing an electronic time clock system.

Emergency Purchases

The Illinois Purchasing Act (30ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damages ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives the quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY03, the Illinois Racing Board filed no affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Board filed the required report in July of 2003 and indicated that no employees were assigned to a location other than official headquarters.